

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareowner and Board of Directors of U S WEST Communications, Inc.

We have audited the consolidated financial statements and the consolidated financial statement schedules of U S WEST Communications, Inc. listed in the index on page 31 of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U S WEST Communications, Inc. as of December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

As discussed in Note 5 on page 23 of the Notes to Consolidated Financial Statements, the Company discontinued accounting for the operations of U S WEST Communications, Inc. in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1993. As discussed in Note 10 on page 26 of the Notes to Consolidated Financial Statements, the Company changed its method of accounting for postretirement benefits other than pensions and other postemployment benefits in 1992.

COOPERS & LYBRAND

Denver, Colorado
January 20, 1994

U S WEST COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions)	Year Ended December 31,		
	1993	1992	1991
OPERATING REVENUES			
Local service	\$3,829.1	\$3,674.3	\$3,500.6
Interstate access service	2,146.9	2,046.9	2,023.4
Intrastate access service	682.0	672.8	649.7
Long distance network service	1,441.5	1,419.7	1,462.7
Other services	556.4	510.0	528.0
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Total operating revenues	8,655.9	8,323.7	8,164.4
	-----	-----	-----
OPERATING EXPENSES			
Employee-related costs	2,916.6	2,862.6	2,728.6
Other operating expenses	1,599.4	1,556.2	1,504.9
Taxes other than income taxes	379.8	348.1	393.4
Depreciation and amortization	1,806.5	1,735.4	1,690.6
Restructuring charges	880.0	-	240.0
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Total operating expenses	7,582.3	6,502.3	6,557.5
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Income from operations	1,073.6	1,821.4	1,606.9
Interest expense	373.8	401.5	433.7
Other expense	13.0	34.9	19.5
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Income before income taxes, extraordinary items and cumulative effect of change in accounting principles	686.8	1,385.0	1,153.7
Provision for income taxes	251.5	435.0	355.2
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Income before extraordinary items and cumulative effect of change in accounting principles	435.3	950.0	798.5
Extraordinary items			
Discontinuance of SFAS No. 71, net of tax	(3,040.9)	-	-
Early extinguishment of debt, net of tax	(77.2)	-	-
Cumulative effect of change in accounting principles (accounting for postemployment and postretirement benefits), net of tax			
	-	(1,724.4)	-
	-----	-----	-----
NET INCOME (LOSS)	(\$2,682.8)	(\$774.4)	\$798.5
	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

U S WEST COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	December 31,	
	1993	1992
ASSETS		
Current assets		
Cash and cash equivalents	\$67.3	\$52.9
Accounts receivable, net of allowance for credit losses of \$27.2 and \$26.8 in 1993 and 1992, respectively	1,390.9	1,324.1
Materials and supplies	108.0	112.8
Deferred tax asset	292.3	-
Other	59.1	145.1
	-----	-----
Total current assets	1,917.6	1,634.9
	-----	-----
Property, plant and equipment, at cost		
In service	27,463.8	25,921.2
Under construction	520.5	602.7
Held for future use	27.4	30.0
	-----	-----
	28,011.7	26,553.9
Less accumulated depreciation	15,464.6	9,234.1
	-----	-----
Net property, plant and equipment	12,547.1	17,319.8
	-----	-----
Other	697.7	1,513.5
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Total assets	\$15,162.4	\$20,468.2
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

U S WEST COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in millions)	December 31,	
	1993	1992
LIABILITIES AND SHAREOWNER'S EQUITY		
Current liabilities		
Short-term debt	\$1,260.0	\$549.6
Accounts payable	935.4	991.3
Employee compensation	302.9	315.6
Current portion of restructuring charges	421.3	80.0
Property taxes payable	199.9	184.6
Advance billings and customer deposits	197.6	188.7
Other accrued liabilities	495.5	285.6
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Total current liabilities	3,812.6	2,595.4
	-----	-----
Long-term debt	4,091.8	4,449.9
Postretirement benefit obligation	2,592.5	2,723.3
Deferred taxes and credits	1,525.5	4,242.7
Shareowner's equity		
Common shares - one share without par value, owned by parent	6,741.5	6,456.9
Retained earnings (deficit)	(3,601.5)	-
	-----	-----
Total shareowner's equity	3,140.0	6,456.9
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Total liabilities and shareowner's equity	\$15,162.4	\$20,468.2
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The accompanying notes are an integral part of the consolidated financial statements.

U S WEST COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	Year Ended December 31,		
	1993	1992	1991
OPERATING ACTIVITIES			
Net income (loss)	(\$2,682.8)	(\$774.4)	\$798.5
Adjustments			
Depreciation and amortization	1,806.5	1,735.4	1,690.6
Deferred income taxes and amortization of investment tax credit	(204.3)	(31.4)	(112.7)
Discontinuance of SFAS No. 71	3,040.9	-	-
Restructuring charges	880.0	-	240.0
Cumulative effect of change in accounting principles	-	1,724.4	-
Changes in operating assets and liabilities			
Accounts receivable	(66.8)	30.4	19.1
Materials, supplies and other	(76.3)	19.6	(66.7)
Accounts payable and accrued liabilities	130.4	157.9	(99.4)
Funding of postretirement benefit obligation	(246.1)	-	-
Other - net	236.7	(7.1)	(89.6)
Cash provided by operating activities	2,818.2	2,854.8	2,379.8
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment	(2,189.8)	(2,086.7)	(2,103.9)
Other - net	42.4	52.0	36.7
Cash used for investing activities	(2,147.4)	(2,034.7)	(2,067.2)
FINANCING ACTIVITIES			
Net proceeds from short-term debt	708.1	3.1	(123.6)
Proceeds from long-term debt	2,281.7	344.1	310.0
Repayments of long-term debt	(3,064.0)	(669.9)	-
Dividends paid	(851.7)	(864.1)	(968.0)
Equity infusions from parent	269.5	369.7	476.6
Cash used for financing activities	(656.4)	(817.1)	(305.0)
CASH AND CASH EQUIVALENTS			
Increase	14.4	3.0	7.6
Beginning balance	52.9	49.9	42.3
Ending balance	\$67.3	\$52.9	\$49.9
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The accompanying notes are an integral part of the consolidated financial statements.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION: The Consolidated Financial Statements include the accounts of U S WEST Communications, Inc. and its wholly-owned subsidiaries (the "Company"). The Company is an indirect, wholly-owned subsidiary of U S WEST, Inc. The Company was formed as a result of the January 1, 1991, merger of The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company. The merger was accounted for as a transfer of assets among entities under common control similar to that of a pooling-of-interests.

In the third quarter of 1993, the Company discontinued accounting for its operations under Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." Refer to Note 5 on page 23 of the Notes to Consolidated Financial Statements.

Certain reclassifications within the Consolidated Financial Statements have been made to conform to the current year presentation.

CASH AND CASH EQUIVALENTS: Cash and cash equivalents include highly liquid investments with original maturities of three months or less which are readily convertible into cash and which are not subject to significant risk resulting from changes in interest rates.

MATERIALS AND SUPPLIES: New and reusable materials are carried principally at average cost, except for significant individual items which are valued based on specific costs. Non-reusable material is carried at its estimated salvage value.

PROPERTY, PLANT AND EQUIPMENT: The investment in property, plant and equipment is carried at cost less accumulated depreciation. Additions, replacements and substantial betterments are capitalized. Capitalized costs include applicable salaries and employee benefits, materials, taxes and certain other items. The cost of repairs and maintenance for property, plant and equipment is charged to expense as incurred.

The Company's provision for depreciation of property, plant and equipment is based on various straight-line group methods using remaining useful (economic) lives based on industry-wide studies. Prior to discontinuing SFAS No. 71, depreciation was based on lives specified by regulatory commissions. When depreciable property, plant and equipment is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation.

The Company capitalized the cost of debt and equity funds as a component of plant construction. This cost was amortized over the remaining service lives of the plant, resulting in higher depreciation expense. Total amounts capitalized by the Company were \$19.1, \$23.4 and \$30.5 in 1993, 1992 and 1991, respectively, and were included as an element of other expense, prior to the discontinuance of SFAS No. 71. Subsequent to the discontinuance of SFAS No. 71, amounts capitalized will be offset against interest expense.

REVENUE RECOGNITION: Local telephone service revenues are generally billed monthly in advance. These revenues are recognized when services are provided. Nonrecurring and usage sensitive revenues derived from installation, exchange access and long distance services are billed and recognized monthly as services are provided.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 2: MAJOR CUSTOMER

The Company provides network access services to interexchange carriers, the largest volume of which is provided to AT&T. During 1993, 1992 and 1991, billings for all services to AT&T approximated \$1,159, \$1,191 and \$1,243, respectively. The decreases are primarily due to price decreases prescribed by the Federal Communications Commission ("FCC"). Related accounts receivable at December 31, 1993 and 1992, totaled \$97 and \$106, respectively.

NOTE 3: RELATED PARTY TRANSACTIONS

The Company purchases various services, as noted below, from affiliated companies. The amount paid by the Company for these services is determined in accordance with FCC and state cost allocation rules, which prescribe various cost allocation methodologies that are dependent upon the service provided. Management believes that such cost allocation methods are reasonable. The costs of those services are billed to the regulated company.

It is not practicable to provide a detailed estimate of the expenses which would be recognized on a stand-alone basis. However, the Company believes that corporate services, including those related to shareholder relations, procurement, tax, legal and human resources, are obtained more economically through affiliates than they would be on a stand-alone basis, since the Company absorbs only a portion of the total costs. Additionally, through its 1/7 ownership interest in Bellcore (see footnote 1 below), the Company obtains benefits associated with research and development activities which exceed the Company's share of the total costs.

The Company's operations include the following charges for these services:

	Year Ended December 31,		
	1993	1992	1991
Research and development (1)	\$177.0	\$198.5	\$196.7
Procurement	106.8	96.0	107.5
Corporate services	101.1	89.0	99.9
Marketing services	66.2	48.7	37.3
Telecommunications	15.5	18.3	27.2
Leased office space	10.9	10.2	30.8
Other	34.0	36.2	33.0
Total	\$511.5	\$496.9	\$532.4

(1) Includes charges related to research, development and maintenance of existing technologies performed by Bellcore, a telecommunications research entity in which the Company has 1/7 ownership interest.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 4: RESTRUCTURING CHARGES

The Company's 1993 results reflect a pretax restructuring charge of \$880 million. The restructuring charge includes specific incremental and direct costs which can be estimated with reasonable accuracy and are clearly identifiable with the related plan.

The restructuring plan is designed to provide faster, more responsive customer services while reducing the costs of providing these services. As part of the plan, the Company will develop new systems that will enable it to monitor networks to reduce the risk of service interruptions, activate telephone service on demand, provide automated inventory systems and centralize its service centers so that customers can have their telecommunications needs resolved with one phone call. The Company will also reduce its work force by approximately 8,000 employees by the end of 1996 (in addition to a remaining reduction of 1,000 employees pursuant to the restructuring plan announced in 1991) and consolidate the operations of its existing 560 customer centers into 26 customer centers in ten cities.

Following is a schedule of costs included in the restructuring charge:

Employee separation	\$235
Real estate	120
Relocation	105
Retraining	60
Systems development	360

	\$880
	=====

Employee separation costs include severance payments, healthcare coverage and postemployment education benefits. Real estate costs include preparation costs for the new service centers. The relocation and retraining costs are related to moving employees to the sites of the new service centers and retraining employees on the new methods and systems required in the new, restructured mode of operation. Systems development includes the replacement of existing, single-purpose systems with new systems designed to provide integrated, end-to-end customer service. There are no costs for asset write-downs included in the restructuring charge. The work-force reductions would not be possible without the development and installation of the new systems which will eliminate the current, labor-intensive interfaces between existing systems.

The Company's 1991 restructuring plan was established to partially offset the effects of future wage, salary and benefit increases. The plan will result in a work-force reduction of approximately 6,000 employees, of which approximately 5,000 employees have left the Company as of December 31, 1993. The 1991 restructuring charge was \$240, of which approximately \$56 is unused at December 31, 1993.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 5: DISCONTINUANCE OF SFAS NO. 71

The Company incurred a non-cash, extraordinary charge of \$3.0 billion, net of an income tax benefit of \$2.3 billion, in conjunction with its decision to discontinue accounting for its operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as of September 30, 1993. SFAS No. 71 generally applies to regulated companies that meet certain requirements, including a requirement that a company be able to recover its costs, competition notwithstanding, by charging its customers at prices established by its regulators. The Company's decision to discontinue the application of SFAS No. 71 was based on the belief that competition, market conditions and the development of broadband technology, more than prices established by regulators, will determine the future revenues of the Company. As a result of this change, the remaining asset lives of the Company's telephone plant have been shortened to more closely reflect the useful (economic) lives of such plant.

Following is a list of the major categories of property, plant and equipment and the manner in which lives were affected by the discontinuance of SFAS No. 71:

Category	Average Life (years)	
	Before Discontinuance	After Discontinuance
Digital switch	17-18	10
Digital circuit	11-13	10
Aerial copper cable	18-28	15
Underground copper cable	25-30	15
Buried copper cable	25-28	20
Fiber cable	30	20

Following is a schedule of the nature and amounts of the after-tax charge recognized as a result of the Company's discontinuance of SFAS No. 71:

Plant-related	\$3,124
Tax-related regulatory assets and liabilities	(208)
Other regulatory assets and liabilities	125

Total after-tax charge	\$3,041
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NOTE 6: FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, short-term investments and other current amounts receivable and payable approximate fair value because of their short maturity. The fair value of the Company's long-term debt is estimated based on quoted market prices where available. If not available, fair value is based on discounting future cash flows using current interest rates. As of December 31, 1993 and 1992, the carrying amount of the Company's debt was \$5,352 and \$5,000, respectively, and the fair value was \$5,500 and \$5,100, respectively. The fair value of debt includes the effect of variable-to-fixed interest rate swaps on notional principal amounts of \$200 at December 31, 1993.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 7: DEBT

The components of short-term debt follow:

	December 31,	
	1993	1992
Notes payable:		
Commercial paper	\$978.2	\$270.1
Other	0.5	0.5
Current portion of long-term debt	281.3	279.0
Short-term debt	\$1,260.0	\$549.6

Under formal lines of credit with major banks, the Company is permitted to borrow up to \$300, all of which were available at December 31, 1993.

Interest rates and maturities on long-term debt follow:

	December 31,	
	1993	1992
<u>Maturing within 5 years:</u>		
3 3/4 % to 6 1/8 % due 1994	\$ -	\$256.5
6 % to 6 5/8 % due 1995	91.5	91.5
7 1/2 % to 7 5/8 % due 1996	370.0	370.0
6 1/4 % to 7 1/8 % due 1997	16.9	17.2
4 1/2 % to 5 5/8 % due 1998	335.4	35.4
<u>Maturing thereafter:</u>		
Up to 6% with various maturities through 2013	501.0	401.0
Above 6% to 9% with various maturities through 2043	2,435.2	3,047.5
Above 9% to 12% with various maturities through 2031	320.0	320.0
	4,070.0	4,539.1
Unamortized discount (net) and debt issuance costs	(123.5)	(209.3)
Other	145.3	120.1
Long-term debt	\$4,091.8	\$4,449.9

Interest payments (net of amounts capitalized) were \$386.4, \$406.3 and \$392.6, respectively, for 1993, 1992 and 1991.

During 1993, the Company refinanced debt issues aggregating \$2.7 billion in principal amount to take advantage of favorable interest rates. The refinancing resulted in an extraordinary charge to income of \$77.2, net of a tax benefit of \$47.8.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 8: LEASE COMMITMENTS

The Company has entered into operating leases for office facilities, equipment and real estate. Total commitments under non-cancellable operating leases at December 31, 1993, follow:

Leases	Operating
1994	\$92.1
1995	83.4
1996	74.0
1997	72.0
1998 thereafter	69.5
	468.9
Total minimum lease payments	\$859.9

Rent expense under operating leases was \$184.3 in 1993, \$184.6 in 1992 and \$144.5 in 1991.

NOTE 9: CONTINGENCIES

There are pending regulatory actions in local regulatory jurisdictions which call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events and 2) misconduct. The Commission's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. If the Commission finds that either of the exceptions apply, the Company could be liable for refunds, although at this time any such amount is not reasonably estimable since the case is still in the discovery process.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 10: EMPLOYEE BENEFITS

Pension Plans

The Company is a participant in a defined benefit pension plan administered by U S WEST, which covers substantially all management and occupational employees. Prior to 1993, the Company was a participant in two defined benefit pension plans administered by U S WEST, which were merged into one plan effective January 1, 1993. Benefits for management employees are based upon a final pay formula while occupational benefits are based upon a flat benefit formula. The projected unit credit method is used for financial reporting purposes and the aggregate cost method for funding purposes. No funding was required in 1993, 1992 or 1991. Net pension credits for 1993, 1992 and 1991 were \$66.0, \$101.8 and \$100.6, respectively.

Postretirement Benefits Other Than Pensions

The Company provides certain health care and life insurance benefits for retired employees. Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 mandates that employers reflect in their current expenses an accrual for the cost of providing retirement medical and life insurance benefits to current and future retirees. Prior to 1992, the Company recognized these costs as they were paid. Adoption of SFAS No. 106 resulted in a one-time, non-cash charge against 1992 earnings of \$1,675.3, net of a deferred tax benefit of \$1,022.1, for the prior service of active and retired employees. The Company used the projected unit credit method for the determination of postretirement medical costs for financial reporting purposes.

In conjunction with the adoption of SFAS No. 106, for financial reporting purposes, the Company elected to immediately recognize the accumulated postretirement benefit obligation for current and future retirees, net of the fair value of plan assets. In 1992, pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," a regulatory asset associated with the recognition of the transition benefit obligation was not recorded because of uncertainties as to the timing and extent of recovery given the Company's assessment of its long-term competitive environment. However, the FCC and certain state jurisdictions permit amortization of the transition obligation over the average remaining service period of active employees for regulatory accounting purposes.

Net postretirement benefit costs for 1993 and 1992 were \$247.5 and \$258.3, respectively. The amount funded by the Company will generally follow the amount of expense allowed in regulatory jurisdictions.

Other Postemployment Benefits

The Company also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective January 1, 1992. SFAS No. 112 requires that employers accrue for the estimated costs of benefits, such as workers' compensation and disability, provided to former or inactive employees who are not eligible for retirement. Adoption of SFAS No. 112 resulted in a one-time, non-cash charge against 1992 earnings of \$49.1, net of a deferred tax benefit of \$29.9. No adjustment to the postemployment benefit liability was necessary at December 31, 1993.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 11: INCOME TAXES

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods in accordance with SFAS No. 109, "Accounting for Income Taxes," adopted by the Company effective January 1, 1993. SFAS No. 109 uses a balance sheet approach that generally allows consideration of expected future income. Prior to 1993, the Company used the SFAS No. 96 approach that gave no recognition to future events other than the recovery of assets and settlement of liabilities at their carrying amounts. The cumulative effect of adopting SFAS No. 109 was not material to the results of operations.

The Company is included in the consolidated tax return of U S WEST. Under an agreement with U S WEST, the Company recognizes income taxes on a separate return basis. At December 31, 1993 and 1992, the Company had an outstanding tax payable to U S WEST of \$96.3 and \$22.9, respectively.

For financial statement purposes, investment tax credits are being amortized over the economic lives of the related property, plant and equipment in accordance with the deferred method of accounting for such credits.

The components of the provision for income taxes follow:

	Year Ended December 31,		
	1993	1992	1991
Federal income taxes			
Current	\$393.9	\$393.2	\$396.0
Deferred	(122.3)	31.3	(48.1)
Investment tax credits - net	(56.1)	(63.2)	(74.9)
	215.5	361.3	273.0
State and local			
Current	61.9	58.8	72.0
Deferred	(25.9)	14.9	10.2
	36.0	73.7	82.2
Provision for income taxes	\$251.5	\$435.0	\$355.2

The unamortized balance of investment tax credits were \$280.0 and \$520.8 at December 31, 1993 and 1992, respectively. During 1993, the unamortized balance of investment tax credits was reduced by \$185.6 in conjunction with the Company's decision to discontinue accounting in accordance with SFAS No. 71 (refer to Note 5 on page 23 of the Notes to Consolidated Financial Statements).

Amounts paid for income taxes were \$337.8, \$464.7, and \$454.8 respectively, for 1993, 1992 and 1991.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 11: INCOME TAXES (Continued)

The effective tax rate differs from the statutory tax rate as follows:

	Year Ended December 31,		
	1993	1992	1991
Federal statutory tax rate *	35.0 %	34.0 %	34.0 %
Investment tax credit amortization	(3.3)	(4.7)	(6.5)
State income taxes - net of federal effect	3.9	3.5	4.7
Rate differential on reversing temporary differences	(2.4)	(4.2)	(4.8)
Depreciation on capitalized overheads	1.5	2.0	3.1
Other	(0.1)	0.8	0.3
Tax law change - catch-up adjustment	3.5	-	-
Restructuring charge	(1.5)	-	-
Effective tax rate	36.6 %	31.4 %	30.8 %

* Federal statutory tax rate increase effective January 1, 1993

The components of the net deferred tax liability follow:

	December 31, 1993	January 1, 1993
Property, plant and equipment temporary differences	\$1,342.6	\$2,913.8
State deferred taxes - net of federal effect	176.7	393.6
Revenue requirement adjustment to regulatory asset	-	356.4
Other	78.6	113.1
Deferred tax liabilities	\$1,597.9	\$3,776.9
Pension, postretirement and postemployment benefits	747.2	773.2
Revenue requirement adjustment to regulatory liability	-	463.6
Unamortized investment tax credit	98.0	177.0
State deferred taxes - net of federal effect	171.5	143.5
Restructuring	327.6	-
Other	205.9	153.3
Deferred tax assets	1,550.2	1,710.6
Net deferred tax liability	\$47.7	\$2,066.3

The current portion of the net deferred tax liability is an asset of \$292.3 resulting primarily from restructuring charges and compensation-related items.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

NOTE 11: INCOME TAXES (Continued)

Prior to the discontinuance of SFAS No. 71, the Company recorded additional deferred taxes and established a corresponding regulatory asset, primarily related to the cumulative amount of tax benefits previously flowed through to ratepayers. In addition, the Company recorded a regulatory liability coincidental with the reduction of the deferred tax reserves from higher historical to lower current tax rates. The regulatory asset and liability were grossed up, in accordance with SFAS No. 109, for the tax effect of future revenue requirements. In connection with the discontinuance of SFAS No. 71, the remaining balance of the regulatory asset and liability at December 31, 1992, and the related deferred tax asset and liability, were written off as described in Note 5 on page 23 of the Notes to Consolidated Financial Statements.

On August 10, 1993, federal legislation was enacted which increased the corporate tax rate from 34 percent to 35 percent effective January 1, 1993. The cumulative effect on deferred taxes of the 1993 increase in income tax rates was \$54.

NOTE 12: COMMON SHAREOWNER'S EQUITY

Transactions affecting shareowner's equity follow:

	Common shares	Retained earnings	Total
Balance at December 31, 1990	\$5,589.5	\$1,768.6	\$7,358.1
Net income	-	798.5	798.5
Dividends declared	-	(798.5)	(798.5)
Equity infusions	476.6	-	476.6
Other - net	6.8	(4.3)	2.5
Balance at December 31, 1991	6,072.9	1,764.3	7,837.2
Net loss	-	(774.4)	(774.4)
Dividends declared	-	(989.2)	(989.2)
Equity infusions	383.7	-	383.7
Other - net	0.3	(0.7)	(0.4)
Balance at December 31, 1992	6,456.9	(0.0)	6,456.9
Net loss	-	(2,682.8)	(2,682.8)
Dividends declared	-	(918.7)	(918.7)
Equity infusions	284.3	-	284.3
Other - net	0.3	-	0.3
Balance at December 31, 1993	\$6,741.5	(\$3,601.5)	\$3,140.0

U S WEST COMMUNICATIONS, INC.
SUPPLEMENTARY FINANCIAL DATA
(Dollars in millions)

QUARTERLY FINANCIAL DATA (Unaudited)

Quarter	1st	2nd	3rd	4th
1993				
Operating revenues	\$2,141.2	\$2,151.0	\$2,148.0	\$2,215.7
Operating income (loss)	498.8	477.4	(406.9)	504.3
Income (loss) before extraordinary items and cumulative effect of change in accounting principle	267.3	242.7	(348.9)	274.2
Net income (loss)	267.3	192.5	(3,416.8)	274.2
1992				
Operating revenues	\$2,067.8	\$2,078.2	\$2,072.1	\$2,105.6
Operating income	481.8	487.0	393.9	458.7
Income before cumulative effect of change in accounting principles	264.7	244.1	196.7	244.5
Net income (loss)	(1,459.7)	244.1	196.7	244.5

Second quarter 1993 net income reflects the costs associated with the refinancing of debt.

Third quarter 1993 operating income reflects the restructuring charge described in Note 4 on page 22 of the Notes to Consolidated Financial Statements.

Third quarter 1993 net loss includes the impacts of discontinuing SFAS No. 71, the cumulative effect of a federally mandated increase in income taxes and the early extinguishment of debt.

First quarter 1992 net loss reflects the impacts of adopting SFAS No. 106 and SFAS No. 112.

U S WEST COMMUNICATIONS, INC.
FORM 10-K

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) Documents filed as a part of this report:	Page
(1) Report of Independent Accountants	15
(2) Consolidated Financial Statements and Supplementary Data:	
Consolidated Statements of Income - for the years ended December 31, 1993, 1992 and 1991.	16
Consolidated Balance Sheets - as of December 31, 1993 and 1992	17
Consolidated Statements of Cash Flows - for the years ended December 31, 1993, 1992 and 1991	19
Notes to Consolidated Financial Statements	20
Supplementary Financial Data (Unaudited)	30
(3) Consolidated Financial Statement Schedules:	
V - Property, Plant and Equipment	35
VI - Accumulated Depreciation and Amortization	36
VIII - Valuation and Qualifying Accounts	38
IX - Short-Term Debt	39
X - Supplementary Income Statement Information	40

Financial statement schedules other than those listed above have been omitted because the required information is contained in the Consolidated Financial Statements and notes thereto, or because such schedules are not required or applicable.

U S WEST COMMUNICATIONS INC.
FORM 10-K

PART IV

Item 14. EXHIBITS FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(b) Reports on Form 8-K:

The Company filed the following reports on Form 8-K during the fourth quarter of 1993:

- (i) report dated October 28, 1993, filing a form of Note in connection with the Company's 5.65% notes due November 1, 2004
- (ii) report dated November 15, 1993, filing a form of Note in connection with the Company's 6 1/8% notes due November 15, 2005, and a form of Debenture with respect to the Company's 7 1/8% debentures due November 15, 2043
- (iii) report dated December 17, 1993, filing a First Amendment, dated December 17, 1993, to Distribution Agreement, dated April 20, 1992, among the Company and Solomon Brothers, Inc., Goldman, Sachs & Co., and Morgan Stanley & Co. Incorporated, and a form of Medium term (Floating Rate) Note with respect thereto.

(c) Exhibits

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission ("SEC") are incorporated herein by reference as exhibits hereto.

Exhibit
Number

- (2a) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Northwestern Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2a to Form SE filed on January 8, 1991, File No. 1-3040).
- (2b) Articles of Merger including the Plan of Merger between The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) and Pacific Northwest Bell Telephone Company. (Incorporated herein by this reference to Exhibit 2b to Form SE filed on January 8, 1991, File No. 1-3040)
- (3a.1) Articles of Incorporation of the Registrant as amended December 22, 1980 (Exhibit 3a to Form 10-K for the period ended December 31, 1983, File No. 1-3040)
- (3a.2) Articles of Amendment to the Articles of Incorporation of The Mountain States Telephone and Telegraph Company (renamed U S WEST Communications, Inc.) as filed with the Colorado Secretary of State. (Incorporated herein by this reference to Exhibit 3 to Form SE filed on January 8, 1991, File No. 1-3040)
- (3b) Bylaws of the Registrant as amended February 16, 1993.
- (4) No instrument which defines the rights of holders of long and intermediate term debt of the Registrant is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, the Registrant hereby agrees to furnish a copy of any such instrument to the SEC upon request.
- (10a) Reorganization and Divestiture Agreement dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST, Inc., and certain of their affiliated companies, including The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company, Pacific Northwest Bell Telephone Company and NewVector Communications, Inc. (Exhibit 10a to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10b) Shared Network Facilities Agreement dated as of January 1, 1984, between American Telephone and Telegraph Company, AT&T Communications of the Midwest, Inc. and The Mountain States Telephone and Telegraph Company (Exhibit 10b to Form 10-K for the period ended December 31, 1983, File No. 1-3040).

U S WEST COMMUNICATIONS INC.
FORM 10-K

PART IV

Item 14 EXHIBITS. FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(c) Exhibits - continued

- (10c) Agreement Concerning Termination of the Standard Supply Contract effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph Company and Central Services Organization (Exhibit 10d to Form 10-K for the period ended December 31, 1983, File No. 1-3040)
- (10d) Agreement Concerning Certain Centrally Developed Computer Systems effective December 31, 1983, between American Telephone and Telegraph Company, Western Electric Company, Incorporated, The Mountain States Telephone and Telegraph and Central Services Organization (Exhibit 10e to Form 10-K for the period ended December 31, 1983, File No. 1-3040).
- (10e) Agreement Concerning Patents, Technical Information and Copyrights effective December 31, 1983, between American Telephone and Telegraph Company and U S WEST, Inc. (Exhibit 10f to Form 10-K for the period ended December 31, 1983 File No. 1-3040).
- (10f) Agreement Concerning Contingent Liabilities, Tax Matters and Termination of Certain Agreements dated as of November 1, 1983, between American Telephone and Telegraph Company, U S WEST, Inc., The Mountain States Telephone and Telegraph Company and certain of their affiliates (Exhibit 10g to Form 10-K for the period ended December 31, 1983, File No. 1-3040)
- (10g) Agreement Concerning Trademarks, Trade Names and Service Marks effective December 31, 1983, between American Telephone and Telegraph Company, American Information Technologies Corporation, Bell Atlantic Corporation, BellSouth Corporation, Cincinnati Bell, Inc., NYNEX Corporation, Pacific Telesis Group, The Southern New England Telephone Company, Southwestern Bell Corporation and U S WEST, Inc. (Exhibit 10i to Form 10-K for the period ended December 31, 1984, File No. 1-3040).
- (10h) Shareholders' Agreement dated as of January 1, 1988, between Ameritech Services, Inc., Bell Atlantic Management Services, Inc., BellSouth Services, Incorporated, NYNEX Service Company, Pacific Bell, Southwestern Bell Telephone Company, The Mountain States Telephone and Telegraph Company, Northwestern Bell Telephone Company and Pacific Northwest Bell Telephone Company Exhibit 10h to Form SE dated March 5, 1992. File No. 1-3040.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 23 Consent of Independent Accountants
- 24 Powers of Attorney.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Denver, State of Colorado, on March 30, 1994.

U S WEST COMMUNICATIONS, INC.

/s/ David R. Laube

By _____
David R. Laube
Vice President, Controller
and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:

A. Gary Ames, President and Chief Executive Officer

Principal Financial Officer:

James T. Helwig, Vice President and Chief Financial Officer

Principal Accounting Officer:

David R. Laube, Vice President, Controller and Treasurer

Directors:

/s/ A. Gary Ames

/s/ James T. Helwig

/s/ James M. Osterhoff

/s/ David R. Laube

By _____
David R. Laube
(for himself and as Attorney-in-Fact)

Dated: March 30, 1994

U S WEST COMMUNICATIONS, INC.
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
(Dollars in millions)

Classification	Balance at beginning of period	Additions at cost (a)	Retire- ments (b)	Other changes (c)	Balance at end of period
Year 1993					
Land and buildings	\$2,335.6	\$76.8	\$23.1	\$3.3	\$2,392.6
Central office equipment	10,143.7	933.5	540.8	215.5	10,751.9
Station equipment	305.6	41.5	14.8	8.9	341.2
Outside plant	10,793.5	665.4	87.6	14.7	11,386.0
Furniture and office equipment	1,837.7	314.2	124.6	11.2	2,038.5
Other communication equipment	11.0	11.1	0.7	19.0	40.4
Vehicles and work equipment	494.1	49.6	30.6	0.1	513.2
Plant in service	25,921.2	2,092.1	822.2	272.7	27,463.8
Plant under construction	602.7	84.2	-	(166.4)	520.5
Property held for future use	30.0	-	-	(2.6)	27.4
Total	\$26,553.9	\$2,176.3	\$822.2	\$103.7	\$28,011.7
Year 1992					
Land and buildings	\$2,238.8	\$115.7	\$15.1	(\$3.8)	\$2,335.6
Central office equipment	9,538.7	953.8	492.4	143.6	10,143.7
Station equipment	326.0	38.4	72.5	13.7	305.6
Outside plant	10,175.3	725.8	73.4	(34.2)	10,793.5
Furniture and office equipment	2,010.2	290.8	566.3	103.0	1,837.7
Other communication equipment	10.7	0.7	0.4	-	11.0
Vehicles and work equipment	511.9	59.0	77.4	0.6	494.1
Plant in service	24,811.6	2,184.2	1,297.5	222.9	25,921.2
Plant under construction	593.5	172.4	-	(163.2)	602.7
Property held for future use	34.7	-	-	(4.7)	30.0
Total	\$25,439.8	\$2,356.6	\$1,297.5	\$55.0	\$26,553.9
Year 1991					
Land and buildings	\$2,182.9	\$85.7	\$28.9	(\$0.9)	\$2,238.8
Central office equipment	9,007.8	1,032.2	539.7	38.4	9,538.7
Station equipment	604.7	29.8	310.6	2.1	326.0
Outside plant	9,697.6	562.4	92.3	7.6	10,175.3
Furniture and office equipment	1,949.0	298.2	295.6	58.6	2,010.2
Other communication equipment	47.9	4.6	2.0	(39.8)	10.7
Vehicles and work equipment	482.8	56.0	25.5	(1.4)	511.9
Plant in service	23,972.7	2,068.9	1,294.6	64.6	24,811.6
Plant under construction	511.5	91.0	-	(9.0)	593.5
Property held for future use	25.4	8.3	-	1.0	34.7
Total	\$24,509.6	\$2,168.2	\$1,294.6	\$56.6	\$25,439.8

The notes on page 37 are an integral part of this Schedule.

U S WEST COMMUNICATIONS, INC.
SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION
(Dollars in millions)

Description	Balance at beginning of period	Additions charged to expenses	Retire- ments (b)	Other changes (d)	Balance at end of period
Year 1993					
Buildings	\$503.9	\$72.0	\$21.7	\$68.9	\$623.1
Central office equipment	3,649.5	868.8	532.7	2,136.9	6,122.5
Station equipment	189.2	11.7	17.4	19.1	202.6
Outside plant	3,983.2	528.4	79.3	2,631.6	7,063.9
Furniture and office equipment	715.8	283.8	124.6	339.1	1,214.1
Other communication equipment	6.8	2.5	0.6	10.3	19.0
Vehicles and work equipment	185.4	39.4	30.6	24.9	219.1
Plant in service	9,233.8	1,806.6	806.9	5,230.8	15,464.3
Property held for future use	0.3	-	-	-	0.3
Total	\$9,234.1	\$1,806.6	\$806.9	\$5,230.8	\$15,464.6
Year 1992					
Buildings	\$444.5	\$63.7	\$14.9	\$10.6	\$503.9
Central office equipment	3,280.9	844.8	491.3	15.1	3,649.5
Station equipment	233.6	17.3	72.4	10.7	189.2
Outside plant	3,564.4	497.9	72.2	(6.9)	3,983.2
Furniture and office equipment	988.1	267.4	566.1	26.4	715.8
Other communication equipment	12.4	2.8	2.2	(6.2)	6.8
Vehicles and work equipment	215.9	41.5	77.4	5.4	185.4
Plant in service	8,739.8	1,735.4	1,296.5	55.1	9,233.8
Property held for future use	0.4	-	-	(0.1)	0.3
Total	\$8,740.2	\$1,735.4	\$1,296.5	\$55.0	\$9,234.1
Year 1991					
Buildings	\$418.7	\$75.0	\$28.3	(\$20.9)	\$444.5
Central office equipment	3,019.7	786.0	552.2	27.4	3,280.9
Station equipment	496.6	44.6	310.6	3.0	233.6
Outside plant	3,167.9	488.5	91.9	(0.1)	3,564.4
Furniture and office equipment	993.9	258.3	280.7	16.6	988.1
Other communication equipment	9.2	(1.1)	(0.5)	3.8	12.4
Vehicles and work equipment	194.4	41.5	25.3	5.3	215.9
Plant in service	8,300.4	1,692.8	1,288.5	35.1	8,739.8
Property held for future use	2.6	(2.2)	-	-	0.4
Total	\$8,303.0	\$1,690.6	\$1,288.5	\$35.1	\$8,740.2

The notes on page 37 are an integral part of this Schedule.

U S WEST COMMUNICATIONS, INC.
NOTES TO SCHEDULES V AND VI
(Dollars in millions)

- (a) Additions include allowance for funds used during construction and transfers from telephone plant under construction to telephone plant in service.
- (b) Items of telephone plant, when retired or sold, are deducted from the property account at the amount at which they are included therein.
- (c) Other changes include (1) prior year reclassifications, (2) adjustments resulting from periodic physical inventories and (3) transfers from construction in progress.
- (d) Comprised principally of removal costs and salvage received from disposals. 1993 includes the increase in accumulated depreciation recorded in conjunction with the Company's decision to discontinue the application of SFAS No. 71. Following is a schedule of the impacts on the 1993 accumulated depreciation by class of plant:

Buildings	\$80.2
Central office equipment	2,071.2
Station equipment	8.0
Outside plant	2,643.6
Furniture and office equipment	117.2
Other communication equipment	211.6
Vehicles and work equipment	19.7

Total adjustment to plant in service	\$5,151.5
	=====

U S WEST COMMUNICATIONS, INC.
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
(Dollars in millions)

Description	Balance at beginning of period	Charged to expense	Charged to other accounts	Deductions	Balance at end of period
ALLOWANCE FOR CREDIT LOSSES					
Year 1993	\$26.8	55.4	-	55.0	\$27.2
Year 1992	\$32.0	55.0	0.7	60.9	\$26.8
Year 1991	\$29.0	73.7	(0.8)	69.9	\$32.0
 RESERVES RELATED TO 1993 BUSINESS RESTRUCTURING, INCLUDING FORCE AND FACILITY CONSOLIDATION					
Year 1993	-	\$880.0	-	-	\$880.0
 RESERVES RELATED TO 1991 BUSINESS RESTRUCTURING, INCLUDING FORCE REDUCTIONS					
Year 1993	\$160.2	-	-	\$104.2	\$56.0
Year 1992	\$240.0	-	-	\$79.8	\$160.2
Year 1991	-	\$240.0	-	-	\$240.0

- (a) Allowance for credit losses does not include those amounts charged directly to expense in the charged to expense category. These amounts were \$9.5, \$8.9 and \$7.2, respectively for 1993, 1992 and 1991.
- (b) Allowance for credit losses deductions represent customer accounts written off during the period, net of recoveries.

U S WEST COMMUNICATIONS, INC.
SCHEDULE IX - SHORT-TERM DEBT
(Dollars in millions)

Description	Balance at end of period	Weighted average interest rate at end of period	Maximum amount outstanding during period (a)	Average amount outstanding during period (b)	Weighted average interest rate during period (c)
Year 1993					
Bank loans	\$0.5	6.00%	\$0.8	\$0.4	6.82%
Commercial paper	978.2	2.73%	1,466.6	834.6	3.20%
Other	-	-	-	-	-
Current portion of long-term debt	281.3	N/A	N/A	N/A	N/A
Total	\$1,260.0			\$835.0	
Year 1992					
Bank loans	\$0.3	6.33%	\$0.3	\$0.3	6.67%
Commercial paper	270.1	3.48%	441.3	224.7	4.12%
Other	0.2	9.17%	0.3	0.2	9.05%
Current portion of long-term debt	279.0	N/A	N/A	N/A	N/A
Total	\$549.6			\$225.2	
Year 1991					
Bank loans	\$1.4	7.00%	\$1.4	\$0.9	8.20%
Commercial paper	267.0	5.00%	638.8	420.9	6.34%
Other	-	-	-	-	-
Current portion of long-term debt	26.6	N/A	N/A	N/A	N/A
Total	\$295.0			\$421.8	

(a) Computed based on the amount outstanding at month end.

(b) Computed as the year-to-date cumulative monthly average (which is based on the daily balances outstanding) divided by 12 months.

(c) Computed as the interest accrued year-to-date divided by the weighted average amount outstanding.